

“Comprehensive Exam of Plan Design”

To the

Iowa General Assembly

October 15, 2011



Board of Trustees

Peace Officers' Retirement, Accident and Disability System

Iowa Department of Public Safety

215 E 7th St – 4th floor

Des Moines, Iowa 50319

515-725-6248

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1. Board of Trustees Membership (§97A.5)

Chairman Larry L. Noble

Commissioner, Department of Public Safety

Trustee Michael L. Fitzgerald

Treasurer, State of Iowa

Trustee Robert C. Conrad, Trooper, Iowa State Patrol

Active Member of System: Elected every odd numbered year by active members of the System

Trustee Jack Wissler, Retired Sergeant, Iowa State Patrol

Retired Member of System: Elected every even numbered year by retired members of the System

Trustee Chris L. Mayer, Chief Financial Officer, Principal Bank

Civilian: Appointed by the Governor for a 2 year term

2. Introduction/Background

In 2010, the 83rd General Assembly of the State of Iowa passed HF 2518 which included language requiring the Board of Trustees of the Peace Officers' Retirement, Accident and Disability System ("POR") to conduct a comprehensive examination of the plan design of the retirement system created and governed by Iowa Code chapter 97A. The POR Board of Trustees is required to file a report for distribution to the retirement systems committee which contains the results of the exam.

Sec. 18. PUBLIC SAFETY PEACE OFFICERS' RETIREMENT, ACCIDENT, AND DISABILITY SYSTEM - BOARD REPORT.

1. The board of trustees of the Iowa department of public safety peace officers' retirement, accident, and disability system, as defined in section 97A.2, shall conduct a comprehensive examination of the plan design of the Iowa department of public safety peace officers' retirement, accident, and disability system, pursuant to the principles established in chapter 97D, with the goal of making recommendations for benefit and other statutory changes to the system that will maintain an adequate retirement for members at a reasonable cost to members and employers.

2. On or before October 15, 2011, the board of trustees shall file a report with the legislative services agency, for distribution to the public retirement systems committee, which contains the results of the comprehensive examination and any recommendations for benefit or other statutory changes to the system.

In accordance with the statutory provisions, the Board of Trustees of the Peace Officers' Retirement, Accident and Disability System hereby submits this report.

3. Actuarial Method and Assumptions, Investment Policy

Actuarial Cost Method

Liabilities and contributions information contained in all reports of the System are reported using the Individual Entry Age method of funding. Using Entry Age Actuarial Cost method, the **normal cost** is computed as the level percentage of pay which, if paid from the earliest time each member would have been eligible to join the System until the member's retirement or termination, would accumulate with interest at a rate assumed in the valuation to a fund sufficient to pay all benefits under the System

The **actuarial accrued liability** under this method at any point in time is the theoretical amount the fund would have accumulated had annual contributions equal to the normal cost been made in prior years (if it does not represent the liability for benefits accrued to the valuation date). The **unfunded actuarial accrued liability** is the excess of the actuarial accrued liability over the actuarial value of the System assets on the valuation date.

Major Actuarial Assumptions:

Interest Rate:	8% per year
Asset Valuation:	4 year smoothed average
Price Inflation:	3.5% per year
Payroll Growth:	4.0% per year, including price inflation
Mortality Tables:	RP-2000 Mortality Table for Employees with General Projection

Investment Policy

The Peace Officers' Retirement System's target asset allocation calls for 25% of the Fund to be invested in fixed income bonds, 12% in passive large cap stocks, 25% in international stocks, 15% in small cap stocks, 5% in real estate and 5% in hedge funds. The fund investment policy permits the asset allocation to fluctuate plus or minus 5% from each target. The Fund's asset allocation on June 30, 2011, had slight deviations from its target allocation ranges. The sector allocation was as follows: 29.78% in fixed income bonds, 9.05% was invested in active large cap stocks, 9.07% was invested in passive large cap stocks, 24.43% was invested in international equities, 22.60% was invested in small cap equity and 4.04% invested in real estate. Cash was 1.03% of the portfolio.

Fund Performance

Historically, the Peace Officers' Retirement, Accident and Disability System has met the actuarially assumed rate of return. As most are aware, the markets in the most recent history have been extremely volatile and The Fund's performance reflects the drastic ups and downs of the market. The rate of return during the last decade has averaged just 3.84% with a high of 15.60% and a low of -16.90%. However, over the life of a member's career of 30+ years the system has actually outperformed the assumed rate of 8%, having actually returned an average of 9.64%.

4. System Demographics

Age and Wage Distribution of the System's Active Participants as of July 1, 2010:

<u>Age</u>	<u>#</u>	<u>Avg. Salary</u>
Under 25	16	\$41,876
25 – 29	89	\$47,155
30 – 34	79	\$53,520
35 – 39	151	\$65,094
40 – 44	121	\$70,322
45 – 49	99	\$74,892
50 – 54	71	\$81,377
55 – 59	15	\$78,315
60 – 64	2	\$77,411

Budgets of the last decade have been difficult across all levels of government, the Department of Public Safety included. Reductions to staffing levels have resulted in an aging workforce as compared to that of a decade ago because of the lack of new entrants into the System. In 2001 61% of the sworn workforce of the Department of Public Safety was under the age of 40. As of July 1, 2010 only 52% of the force was under the age of 40. The System's active population remains fairly static compared to 2001 only due to the growth in the gaming industry. Absent the increases in staff attributable to gaming expansion the active membership of the System would be down nearly 7% from a decade ago.

Age and Benefit Distribution of the System's Retirees and Beneficiaries as of July 1, 2010

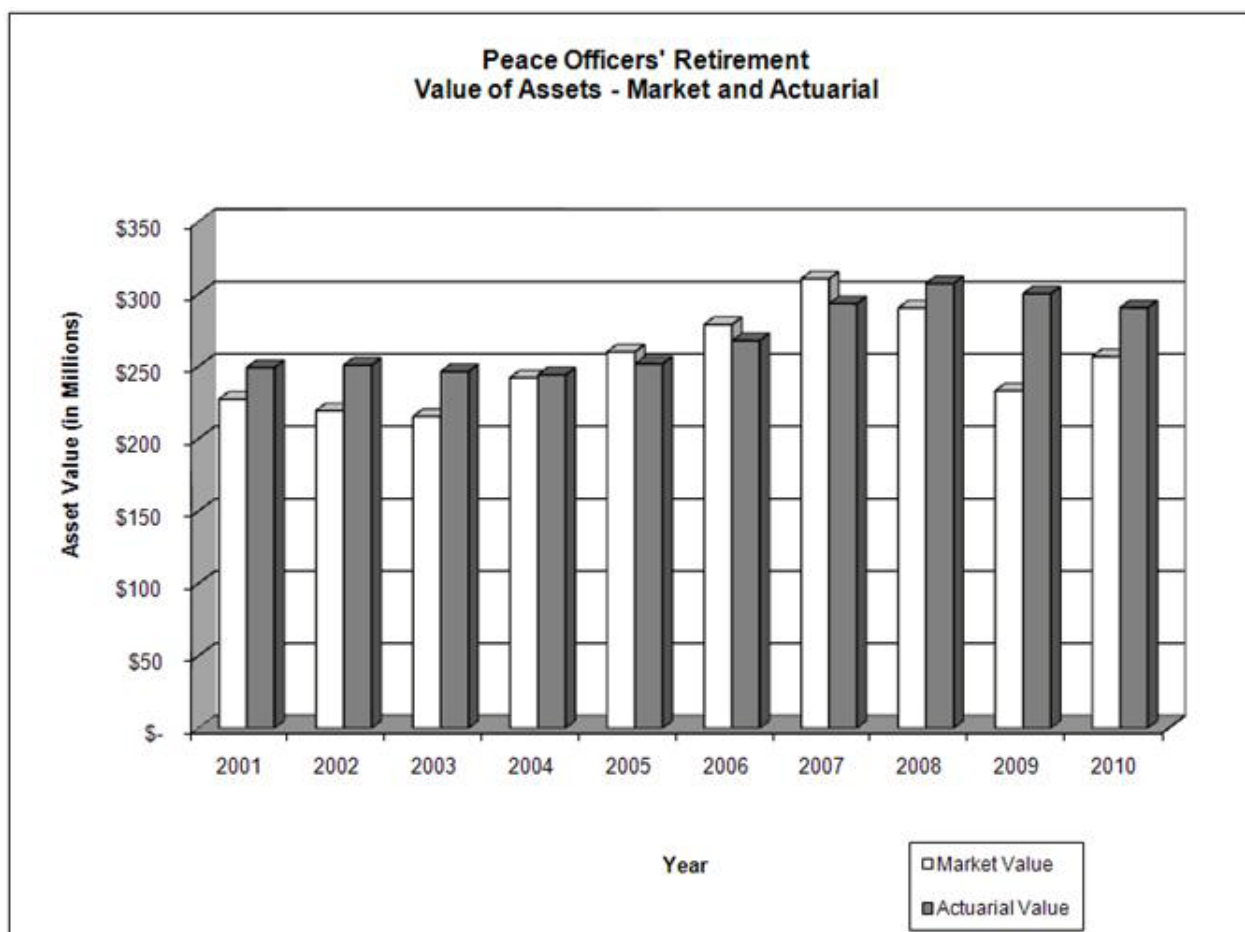
<u>Age</u>	<u>Service Retiree</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Vested Retired</u>	<u>Child Beneficiary</u>	<u>Contingent Beneficiary</u>	<u>Total</u>
< 40		2			9		11
40 - 49		8	1			2	11
50 - 59	47	11	3	2		10	73
60 - 69	135	35	4	9		20	203
70 - 79	95	22	3	7		30	157
80 - 89	47	3	1	1		29	81
90 - 99	3					8	11
Totals	327	81	12	19	9	99	547

While the number of active participants in the system has remained fairly steady, the number of retirees continues to grow. During the same time period, 2001 to 2010, the number of retired participants has increased from 438 to 547. The increase in the number of members receiving benefits from the System is reflective primarily of the growth in the Department in

the early to mid 1970's when the ranks of several of the enforcement divisions were increased, but particularly the Iowa State Patrol.

Market Value and Actuarial Valuation of the Fund

While the System has met the assumed rate of return over the long-term, the continued bear market will place pressure on the System's funded ratio. Much of the loss from 2008 and 2009, -3.80% and -16.90%, respectively, had largely been recovered as of July of 2011 with market returns of 14.4% for the year ended 6/30/2010 and 23.9% for the year ended 6/30/2011. As can be seen in the chart below, the smoothing method utilized to level out the extreme fluctuations has removed many of the peaks and valleys in the System's valuation, and thereby the required contribution rates.



As of July 1, 2010 the System had \$33.6 million in deferred, or unrecognized, investment loss. The favorable investment returns as of June 30, 2011 will have a considerable impact on the deferred loss figure. Unfortunately, it is feared that the 3rd quarter 2011 performance may negate much of the rebound that has been realized.

5. Plan Contribution Structure

As of July 1, 2010 the actuarially required contribution rate had reached 45.38% of covered wages. The actual contribution rate for members was set in statute at 9.35% of covered wages (see §97A.8(1)(c)). The employer contribution rate at the time was set by statute at 23% of covered wages (see §97A.8(1)(b)). Effective July 1, 2011 contributions to the System will be adjusted annually based on a joint proposal made by the Board of Trustees and the State Police Officers' Council, which was passed by the Legislature in House File 2518 and signed into law by the Governor. That contribution schedule is outlined below:

Effective Date	Employee Contribution	Employer Contribution
July 1, 2011	9.85%	25%
July 1, 2012	10.35%	27% + \$5,000,000
July 1, 2013	10.85%	29% + \$5,000,000
July 1, 2014	11.35%	31% + \$5,000,000
July 1, 2015	11.35%	33% + \$5,000,000
July 1, 2016	11.35%	35% + \$5,000,000
July 1, 2017 & beyond	11.35%	37% + \$5,000,000

The supplemental state contribution of \$5,000,000 via general fund appropriation, which is provided in §97A.11A, is scheduled to continue until the funded ratio of the System's assets to liabilities is at least 85%. Using system data included in the July 1, 2010 valuation report it is expected that the System will attain an 85% funded ratio in approximately 20 years, or by 2031.

6. Plan Benefit Provisions

As a result of the recommendations made and approved during the 2010 session the benefit structure for members has been changed. The primary changes in benefit structure are summarized below:

1. Limits the number of years a member retired on accidental disability may receive POR credit for if later reinstated. Previous language included no limit. [Iowa Code § 97A.6(7)(b)]
2. Provides clarification regarding the calculation of one of the two annual adjustments to pensions. Provides that the “flat escalator” will be no more than the exact amount stated in the statute. Actuarial study determined the cost avoidance to be equal to 2.24% in contributions based on covered wages as of July 1, 2009, or \$940,000 per year. [Iowa Code § 97A.6(14)(a)(2)(a)]

The System’s current benefit plan provisions are as follows:

1. Members: Full-time sworn officers of the State of Iowa, Department of Public Safety
2. Defined Benefit Plan/Retirement Formula
 - 2.75% of final average compensation for each year of POR covered service, up to 32 years of service
 - 60.5% with minimum 22 years of service
 - Maximum pension allowance 88%
3. Final Average Compensation
 - High three years of salary
 - Covered Wages includes bi-weekly base salary, longevity pay, and per diem meal allowance
4. Retirement Eligibility Age
 - Service Retirement at age 55
 - If have 22+ years of service, early retirement eligible age 50-54 with retirement allowance reduced by actuarial cost of early receipt of benefits
5. Disability Benefits
 - Ordinary Disability
 - If less than 5 years of service, 25% of the member’s average final compensation
 - If 5 to 21 years of service, 50% of the member’s average final compensation
 - If 22 or more years of service, greater of either ordinary disability benefit or the service retirement benefit if the member were age 55.

- Accidental Disability
 - 60% of the member's final average compensation
 - If 22 or more years of service, greater of either accidental disability benefit or the service retirement benefit if the member were age 55

6. Death Benefits

- Ordinary Death - Lump sum of 50% of compensation earned during year preceding death if member in service at time of death, or pension equal to 40% of average final compensation and 6% per child under the age of 18, or 22 if a full-time student
- Accidental Death – Pension equal to 50% of final average compensation and 6% per child under the age of 18, or 22 if a full-time student

7. Annual Benefit Escalation

- 40% of increase provided to active employees of same position
- An additional lump sum based on years retired provided in total only once per each 5 year period (per 2010 Acts, Chapter 1167, Section 17):
 - \$15 retired less than 5 years
 - \$20 retired at least 5 but less than 10 years
 - \$25 retired at least 10 but less than 15 years
 - \$30 retired at least 15 but less than 20 years
 - \$35 retired at least 20 years

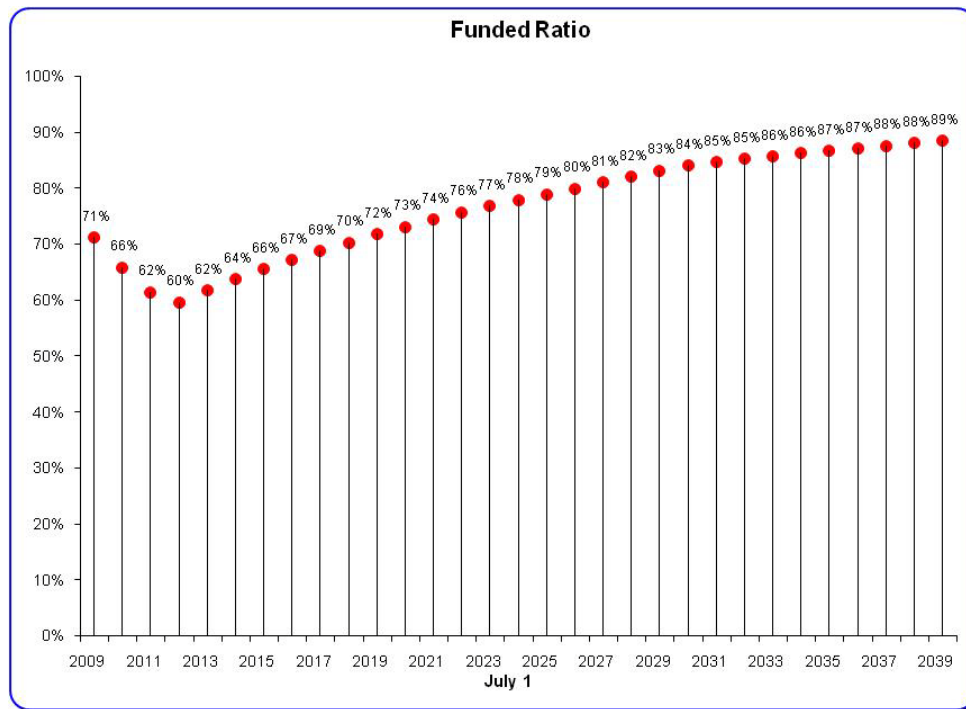
8. Withdrawals

- Members who have terminated POR covered employment prior to retirement may withdraw contributions plus interest, thereby forfeiting any rights to a pension.

7. Summary and Recommendations

While the current funded ratio of the system is rather low, at just under 67% for the year ended June 30, 2010, several steps have been taken to have an impact on the funded ratio. The 2010 Legislature passed several significant changes to Chapter 97A. Chief among those were the increased contribution rates for both the employee, scheduled to increase to 11.35% in FY 2015, and the employer, scheduled to increase to 37% by FY 2018. The inclusion of a supplemental state appropriation in the amount of \$5 million dollars will speed the recovery of the System's funded percentage to a more reasonable 20 year period.

Assuming that critical actuarial assumptions are met, it is projected that the measures taken during the 2010 session will result in a funded status of 85% by fiscal year 2031. The chart directly below depicts the predicted change in the plan through 2039.



The Peace Officers' Retirement, Accident and Disability System Board of Trustees believes, and respectfully recommends, that the changes enacted in 2010 should be given time to run their course and have some effect of the System's condition. It is believed that further changes at this stage may be premature, causing considerable damage to benefit structure and/or place a strain on both State and employee resources.